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SUBJECT: CODEL PELOSI ENGAGES U.S. BUSINESS COMMUNITY IN SHANGHAI

REF: A) Shanghai 229, B) Shanghai 231

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(U) This message is sensitive but unclassified. Not for
distribution outside USG channels.

¶1. (SBU) Summary: In a May 25 breakfast meeting hosted by the American Chamber of Commerce in Shanghai (AmCham) and U.S.-China Business Council (USCBC), over 70 U.S. business representatives discussed energy/environment-related business opportunities in China, U.S. competitiveness, intellectual property rights (IPR), market access, currency valuation and general business environment issues with CODEL Pelosi. In an address to the group, Speaker Nancy Pelosi emphasized the significance of the Waxman-Markey bill passed by the House Energy and Commerce Committee on May 21, saying it created an opportune time to discuss climate change with the Chinese. She also said that her focus on human rights had not changed, and that she sees protecting the environment as part of the larger human rights issue. Rep. Edward Markey (D-MA) and Rep. James Sensenbrenner (R-WI) also made remarks regarding that legislation and the importance of protecting intellectual property rights (IPR) as a key to creating environment-protecting and energy-saving technologies. AmCham Board of Governors Chairman and President of Cargill Investments China Norwell Coquillard spoke to the group and emphasized that American companies in Shanghai are well positioned to compete in efficient energy and green technologies. End Summary.

Speaker: 'We Come in the Spirit of Cooperation'

¶2. (SBU) During an introductory speech, Speaker Pelosi noted the purpose of her CODEL's visit to China is to 'move forward and find common ground' and that the CODEL came in the 'spirit of cooperation.' She noted that it is not just about setting goals on important issues, but it is also about implementing those goals. The CODEL's visit to China 'could not have come at a more opportune time' since the House Energy and Commerce Committee just passed the Waxman-Markey climate and energy bill.

The United States is in a better position to respond when other countries ask 'when is the United States going to take the lead?' The Speaker emphasized that addressing climate change is a flagship issue for the United States, and it entails addressing the fundamental security issue of dependence on foreign oil and the reduction of overall pollution levels. It is also an economic issue because it will reduce the cost of energy and place the United States in the forefront of developing environmental technologies. The vision of fighting climate change has been successful because it includes a broad coalition of businesses, labor groups, environmental groups, scientists and evangelicals.

13. (SBU) Speaker Pelosi also outlined the four main concerns she brings to China: the bilateral trade imbalance, the issue of currency valuation, IPR infringement, and food and product safety. She noted these are all major issues for the United States, and she hopes to move the dialogue forward with the Chinese. The Speaker said the 'hand of friendship has been extended by the Chinese' during her visit, and she hopes to gain access to all thinking possible. She also addressed her previous efforts at promoting human rights and emphasized that protecting the environment is also a human right. 'I really see these two issues coming together,' said the Speaker. Governments must be more transparent and respect the rule of law because it is about 'environmental justice' and energy that people can afford. She also emphasized that it is important that 'we can exchange IP' in a way that is fair for all. We must work together on all these issues in a 'cooperative spirit' in order to be successful.

14. (SBU) Rep. Markey and Rep. Sensenbrenner also made remarks. Rep. Markey described the Waxman-Markey bill as a landmark bill

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that would cut greenhouse-gas emissions about 17 percent below 2005 levels by 2020, and about 80 percent by 2050, while promoting renewable energy and energy efficiency. He noted the key to the bill's passage was the participation of a broad coalition of groups, including business, labor, and environment. The passage of the legislation gave the CODEL a basis to come to China and discuss greenhouse gas emissions. He said that if the United States expects China and India to act, then 'we have to act as well.' Since greenhouse gases are cumulative, it is imperative that the United States form partnerships with others, and that 'we think globally.' The legislation is also important in that it will create incentives in the energy sector that will spur a technological revolution, creating 3-5 million new jobs.

15. (SBU) Rep. Sensenbrenner noted that while he disagrees on the fundamentals of 'cap and trade' provisions in the bill, he strongly supports the effort to reduce emissions through technology. An important component of ensuring that the technology is created in the adequate protection of IPR - 'without enforcement, we won't get the technology.' As such, it is critical that the United States achieve a 'commonality of interest' with China on the issue of IPR protection.

U.S. Companies in Shanghai - Well Positioned For a Green Revolution

16. (SBU) Speaking on behalf of AmCham Shanghai, Norwell Coquillard welcomed CODEL Pelosi and noted the importance of the

CODEL's visit to the commercial, industrial and business capital of China. He noted that Shanghai is the city farthest along in China's shift to a modern service-based economy, and a key growth area in the services market is the 'green tech' sector. Shanghai serves as a hub for R&D and innovation in this important field. Coquillard emphasized that American companies in Shanghai and the Yangtze River Delta are well positioned to compete in efficient energy and green technologies.

¶7. (SBU) AmCham Shanghai is playing a key role in ensuring U.S. companies have an opportunity to compete in this field. Coquillard said that AmCham is participating in the U.S. Clean Energy Forum and is a founding member of the 'Clean Tech Initiative'. It has also been joined by companies such as Price Waterhouse Coopers, Owens Corning, GE, Dell, Phillips, Dow Corning and several other corporations in an effort to develop a roadmap to promote 'clean tech' solutions for a 'sustainable China.'

¶8. (SBU) As the largest and fastest growing American Chamber in Asia Pacific, AmCham Shanghai is also committed to promoting a healthy business environment in China. Coquillard noted that China is now America's second largest trading partner and third largest export market. As such, almost every state in the United States has seen trade with China triple since 2000. Given the continuing global economic downturn, 'U.S. competitiveness in China's growing market is more important than ever.' Increasing U.S. exports and improving market access for American companies will create jobs in the United States. Coquillard stressed the importance of not only focusing on the level of market access in China for U.S. goods and services but also frankly discussing the possible impact of 'protectionist policies coming from both sides of the Pacific.'

Diversity Of Companies Discuss Business Issues in China

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¶9. (SBU) After the members' presentations, conversations continued at separate tables. At the Speaker's table, several business representatives discussed potential protectionism and the impact of China's stimulus package on their businesses. In response to the Speaker's direct question, all indicated that their China businesses were profitable. This did not mean they did not face problems, however. Jim Sherriff, CEO of Cisco China, said that his firm was facing stiff competition from 'local champions,' who enjoyed preferential treatment from local regional governments. Although this predated the financial crisis, it had intensified with the implementation of China's stimulus package. Other businessmen at the table, however, described a different situation. Eric Musser of Corning explained that because his firm did not sell directly to the final consumer, but rather was an intermediate supplier, they had actively benefited from the stimulus package. Whether they faced increased local protectionism or not, all agreed that China's desire to move up the value-added ladder was a key motivation for its continued interest in foreign investment. This applied in almost all sectors, from traditional high tech industries to financial services, retailing, or alternate energy.

¶10. (SBU) In a separate discussion with Rep. Edward Markey,

Covanta Energy Asia Pacific President Allard Nooy highlighted business beneficial aspects of China's renewable energy regulations and Covanta's investments in three operating municipal garbage-to-energy power plants and two more such power plants under construction in China. Rep. Markey described loan guarantees for the U.S. nuclear energy industry in the pending Waxman-Markey bill in his exchange with Westinghouse's Mike Shaqgo; Westinghouse technology will be used in a new Chinese nuclear power plant in Zhejiang Province for which concrete began to be poured in April. Bayer Technology's Matt Targett and Squire, Sanders Dempsey's Charles McElwee briefly described the considerable range of venture capital projects in the United States in biomass-to-liquid fuels projects and other innovative alternative energy projects, and suggested that U.S. firms and U.S. venture capitalists may have market opportunities by partnering with Chinese researchers and companies in these areas.

¶11. (SBU) Dow Corning Silicone Trading's Greater China President Tom Cook discussed the solar panel industry with Rep. Markey, noting how subsidies in Europe have led to export of most of China's solar panel production; new Chinese incentives to deploy solar panels at home are likely to change that imminently. GE Energy 50 Hz IGCC Platform Global Manager Jason Crew discussed wind power deployment and competition in China and plans by the Chinese Academy of Sciences to develop an IGCC pilot project in Lianyungang, Jiangsu Province. Rep. Markey underscored that the pending Waxman-Markey bill has already attracted a broad range of endorsements from industry, labor and environmental NGO leaders, and how he hoped that this energy bill would lead many U.S. companies to find it in their self-interests to appoint Chief Energy Officers, just as 1996 telecommunications legislation in the United States had led many companies to establish Chief Information Officer positions. That earlier legislation had led to creation of new industries and several million new American jobs; the pending energy bill, by establishing expectations and requirements, could spur creation of markets and economies of scale that would allow U.S. industries to be world leaders in renewable energy.

¶12. (SBU) In a separate conversation with Rep. Earl Blumenauer (D-OR), Ted Hornbein of Richco expressed concern that Congress still sees China's exchange rate as a major issue. He pointed out that the renminbi has appreciated in value from 8.3 to 6.83 to the U.S. dollar in a relatively short span. At the same time, China does not get enough credit for the changes it has made to its VAT policy, which effectively has raised the prices of China's exports. Jeff Song from Ingersoll-Rand agreed with Hornbein, adding that even if China were to radically appreciate

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its currency by 20 percent, it still would not create the conditions for low-cost, labor-intensive jobs to return to the United States. The exchange rate, therefore, is a non-issue, Song said.

¶13. (SBU) If Congress wants to make a positive difference in its discussions with China on climate change, Song continued, addressing China's Government Procurement regulations will be critical to improving energy efficiency. The problem in China, Song explained, is that government contracts are awarded to the lowest cost producer regardless of a project's energy usage. Many U.S. companies therefore lose out on bids in a process that is not competitive if energy efficiency is taken into account. "The Chinese Government complains that we only want to win the contracts so that we can sell them expensive equipment," the Ingersoll-Rand representative continued. "But we could make a significant impact on energy efficiency if we had better market access in this area." Tom McCawley, representing Owens Corning, added that his company is attempting to win over local

governments in China by demonstrating that improved energy efficiency will lower costs in the long-term. Rep. Blumenauer replied that he hopes to see more progress in this area, and that CODEL Pelosi's approach with China on climate change is meant to be a "collaborative" effort.

¶14. (SBU) In a separate conversation with Rep. Jackie Speier (D-CA), Squire, Sanders Dempsey Partner Amy Summers emphasized that most U.S. businesses in China do not see the valuation of the RMB as a major issue - rather U.S. companies are being more strongly affected by a growing number of protectionist policies and regulations. She cited a specific example of U.S. travel companies that are effectively shut out of the 'out-bound' tourist market through 'carve out' regulations. Summers noted this is just one example of a well developed sector in China that is still claiming it needs special protection against foreign competition. To address the problem, the United States needs to examine whether this wave of new laws and regulations emanating from both Central and local governments is WTO-compliant. She added that it is very difficult for individual companies to stand up to the Chinese Government on these issues, and the U.S. Government and U.S. industry associations play a vital role in this effort. Proctor and Gamble's Gao Yunsong voiced a similar opinion and said that often times it is not a matter of initial market access - but what comes later when the Chinese realize you have a competitive product.

¶15. (SBU) On the issue of IPR, ALC Advisor's Diane Long said she has seen a 'sea of change' on IP protection since she began doing business in China in the 1980s. But, the enforcement and protection of IPR is very diverse between different jurisdictions in China. She cited Shanghai as a very positive example of IP protection, saying Shanghai has 'IPR in its DNA.' The difference between Shanghai and other cities in China is that Shanghai has realized that it needs to protect IPR to develop an innovative and high-tech economy. Its success is reflected in the fact that it has become a magnet for foreign companies to litigate IP cases. Long emphasized that U.S. companies in China have been successful in protecting IPR when they find Chinese partner companies that understand the value in protecting IPR, and it is also in their best interest to do so. Summers added that she sees the situation on IPR in China changing as 'domestic stakeholders' become more interested in protecting their own IPR and push the system to change.

¶16. (SBU) On environmental protection issues, Long, who noted her long experience working on supply chain issues, voiced her concern over 'excessive' packaging requirements. She illustrated by saying U.S. companies demand far too much wrapping in the garment and shoe industries - it is not the end consumers who want all the packaging. As a result, Chinese suppliers are forced into 'wasteful and environmentally unfriendly' practices in the supply of goods to the U.S. market. Walmart's Brian Liao agreed with the assessment and noted that

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Walmart is making an effort to reduce environmentally harmful packaging by using bio-degradable wrapping and boxes while still maintaining product quality. Wachovia Bank's Ben Kinnas added that such efforts to reform the 'packaging problem' require households to get involved to demand changes to industry practices.

¶17. (U) U.S. Government Participants

Speaker Nancy Pelosi and Mr. Paul Pelosi

Rep. Edward Markey and Dr. Susan Blumenthal

Rep. James Sensenbrenner and Mrs. Cheryl Sensenbrenner

Rep. Earl Blumenauer and son Jon Blumenauer

Rep. Jackie Speier

Acting United States Consul General in Shanghai Simon Schuchat

Professional Staff Members to the Speaker and Representatives

Christopher Beede, Consulate Political and Economic Section
Chief

David Gossack, Foreign Commercial Service Section Chief

Matt Murray, Senior Political Officer

Michael Layne, Senior Economic Officer (notetaker)

¶18. (U) CODEL staff have cleared this report.
SCHUCHAT